

Third Link Growth Fund

Fund report and commentary – as at 31 August 2009

Performance

	Since inception (per annum)	One year	Six months	Three months	One month
Third Link Growth Fund	-0.8%	-4.0%	+30.9%	+14.5%	+5.1%
All Ordinaries Accumulation Index	-14.1%	-9.5%	+39.5%	+19.1%	+6.5%
Fund Relative Performance	+13.3%	+5.5%	-8.6%	-4.7%	-1.4%

Returns are calculated after fees have been deducted and assuming reinvestment of distributions. No allowance is made for tax. Past performance is not a reliable indicator of future performance.

Investment objective

The Fund aims to provide a diversified growth-oriented investment with a bias at most times to Australian listed shares. We aim to outperform the returns of the All Ordinaries Accumulation Index after fees over rolling five year periods. In order to achieve this objective, we have considerable flexibility in the types of investments the Fund may hold outside of Australian listed shares.

The Fund extensively invests in other managed investment funds run by professional third party investment managers.

Investment Manager

Third Link Investment Managers Pty Limited, of which Chris Cuffe is the sole Director.

Distribution frequency

Six monthly, at end of December and June.

Minimum investment

\$20,000

Fund size

\$30.6 million.

Inception date

The Fund was established on 12 March 2008. Up until the end of May 2008, it was a requirement that application monies received into the Fund were kept on deposit as the unit price was held at \$1.00.

Website

www.thirdlink.com.au

Asset allocation

	Current %	Range %
Growth-oriented	80.7	50-100
Australian shares (general)	49.1	
Australian shares (smaller)	12.5	
International shares	9.4	
Emerging markets	3.7	
Global property securities	–	
Alternatives	5.9	
Fixed interest and cash	19.3	0-50
Global credit securities	12.4	
Hybrid securities	3.4	
Cash	3.5	

The above is based on the overall classification of each underlying fund, rather than on a 'look through' basis

Fees and expenses

There are no entry or exit fees payable to investors. The ongoing fees and expenses paid from the Fund are:

- an ongoing management fee of 1.4% pa of the gross asset value of the Fund, from which normal operating expenses are met; and
- abnormal operating expenses.

All fees received from managing the Fund's investments, net of expenses incurred, are donated to Social Ventures Australia (SVA), an Australian based non-profit organisation. For more information visit www.socialventures.com.au

Investment philosophy

Although the Fund has an objective to outperform the All Ordinaries Accumulation Index over time, there is also wide discretion provided to own investments other than Australian listed shares. It is this wide discretion that sets Third Link Growth Fund apart from most other 'Australian Equity' funds.

The rationale for this approach is that history has shown that holding investments in shares over long periods of time usually provides superior returns to other investments. Whilst this is attractive to investors, many would also ideally like to minimise their exposure to the large falls that occur in share markets at various times.

We believe that in the long term the valuations of share markets tend to follow a relatively stable trend line. However, over the short to medium term markets can become very overvalued, the extent of which can be measured in terms of the number of standard deviations from the 'normal' long term trend line. When this occurs, we believe it is sensible to lower the exposure to shares until 'in trend' values (or below) once again prevail. This action may in turn crystallise capital gains resulting in tax leakage, but we believe that:

- allowing tax to dominate your investment thinking is dangerous to your wealth;
- not everyone is concerned about paying tax on capital gains if the trade-off is lower risk to capital - plus some investors do not pay tax or are subject to low tax rates through their superannuation fund.

Given the above, the investment philosophy of the Fund is the following:

- be fully invested in listed Australian shares as the 'default' position;
- progressively increase the weighting to other asset classes including, cash and fixed interest securities, if Australian shares appear very overvalued compared to long term trends; and
- head back to being fully invested in Australian shares once valuations return to normal or fall below long term trend lines.

This is often referred to as a 'mean reversion' strategy.

Another key component of the philosophy is to recognise that within the universe of Australian listed shares there are various subcategories. In particular, smaller companies is a group that tends to have, over time, higher peaks and troughs in their valuations than larger companies.

Accordingly, within the overall exposure to Australian listed shares we seek to increase or decrease the allocation to smaller companies depending on where their values are relative to their normal 'equilibrium' position. The aim of this exercise is to extract a potential source of additional value for investors.

Outside of Australian shares there are many other 'asset classes', each with their own cycles and nuances. While noting that the 'default position' of the Third Link Growth Fund is to be fully invested in listed Australian shares (and the Fund will ultimately be measured by whether it outperforms the All Ordinaries Accumulation Index over rolling five year periods), part of the strategy of the Fund is to also invest in asset classes other than Australian shares and cash, but only if the expected returns are superior.

We believe that the majority of professional investment firms would not adopt this philosophy as it simply presents them with too much 'benchmark risk', being the risk of achieving returns significantly below the stated benchmark. But we believe that successful investing is about long term time frames, patience, and a willingness to run against the herd if needs be. This is why the success of the Third Link Growth Fund is being measured over rolling five year periods rather than shorter time frames.

This strategy will inevitably mean Third Link Growth Fund performs below other Australian equity funds over some time periods, particularly when the Australian share market is very overvalued. However, we have the conviction to manage the Fund as outlined above because we passionately believe that it is in the best long term interests of investors.

Underlying investments

The majority of the Fund's assets are invested in other managed investment funds run by third party investment managers.

The process of choosing each investment manager is based on their investment style and process, the expertise of the investment team, past performance (through different market cycles), correlation issues and a range of other factors. This process is based on our extensive industry knowledge, considerable contacts and many years of experience in the investment management industry.

Current investments are held with the following fund managers:

Australian equities – general

- Cooper Investments
- Solaris Investment Management
- Platypus Asset Management
- Orion Asset Management
- Paradise Investment Management
- Goldman Sachs JB Were/Frank Macindoe

Australian equities – smaller companies

- Eley Griffiths Group
- Pengana Capital
- Contango (via LIC)

International equities – general

- Intrinsic Value Investments
- Taube Hodson Stonex Partners
- Magellan Financial Group
- Arkx Investment Management (carbon reduction)

Emerging markets

- Schroders Group

Alternative assets

- Select Asset Management
- Ellerston Capital
- Technical Investing

Global credit

- Colonial First State Investments

Cash

- Colonial First State Investments

Advisers

A highly experienced group of people act as advisers to Chris Cuffe to provide input when requested concerning the investment environment, the strategy of the Fund and/or the investments held. This ensures there is a diversity of views from experts to help formulate decisions about the Fund:

- Frank Macindoe, Director, Private Wealth Management, Goldman Sachs JB Were
- Robert Keavney, Chief Investment Strategist, Centric Wealth Advisers
- Kieran Kelly, Managing Director, Sirius Fund Management
- Doug McTaggart, Chief Executive, Queensland Investment Corporation
- Mark Nelson, Chief Executive Officer, Caledonia Investments Pty Limited
- Don Stammer, former Chief Economist and Director of Investment Strategy for Deutsche Bank
- Fiona Trafford-Walker, Managing Director, Frontier Investment Consulting
- Michael Traill, Chief Executive, Social Ventures Australia and co-founder of Macquarie Group's private equity business
- Geoff Wilson, Director, Wilson Asset Management International
- Stephen van Eyk, Managing Director, van Eyk Research

Acknowledgment of support

Thanks to the extraordinary and generous support of a number of investment and service professionals who have agreed to waive some or all of the fees that would otherwise be due to them for services rendered, the expenses from running the Fund are kept to a minimum, resulting in a larger pool to donate to Social Ventures Australia.

For a full list of the service providers, please refer to our website.

Treasury Group Investment Services Limited AFSL 227326 ('TIS') is the responsible entity for the Fund. Third Link Investment Managers Pty Limited AFSL 321 611 ('Third Link') has been appointed by TIS to invest and manage the investments of the Fund. Applications can only be made on the form in the current product disclosure statement for the fund dated 15 October 2008. The product disclosure statement can be obtained by contacting Third Link Investment managers Pty Limited or on www.thirdlink.com.au. Investors should be aware that past performance is not indicative of future performance. Returns can be volatile, reflecting rises and falls in the value of underlying investments. Potential investors should consider the product disclosure statement before deciding whether to invest, or continue to invest in the Funds.